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SUBJECT: DAILY SUMMARY OF JAPANESE PRESS 06/11/08

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ARTICLES:

(1) Foreign investors to be exempt from corporate taxes in Japan by fulfilling four conditions; Use of independent domestic asset management company required

NIKKEI (Top play) (Full)  
June 11, 2008

The government will revise taxation on overseas investors with the aim of promoting investment in Japan by foreign investment funds and companies. It will clarify corporate tax exemption rules to be applied to overseas investors that use domestic asset management firms to handle their portfolios, provided they meet four conditions ensuring that their assets are managed at the discretion of the domestic asset management companies. Its aim is to lure investment funds to Japan for the revitalization of the Tokyo market by making the current ill-defined taxation rules easy to understand,

#### Government to set up new rules

The Finance Ministry and the Financial Services Agency will work to craft new rules to be implemented as early as this month.

There is a major principle concerning taxation for overseas investors -- if they have a discretionary investment contract with a registered domestic asset management company and if that asset management company acts independently, the investor will be exempt from taxation in Japan. However, there are currently no rules for determining whether foreign investors are independent from domestic asset management companies.

The government will clarify four conditions to define cases exempt from taxation. If domestic asset management companies used for investment meet the following four conditions, foreign clients would be exempt from taxation: (1) investment decisions are made by the domestic asset management company without specific directions from the overseas investor; (2) more than half the companies' directors and employees are not allowed to simultaneously hold positions at foreign funds and the like; (3) the management company has an

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agreement for contingency fee payments; and (4) the company does not rely on a specific overseas investor for its operations and is able to engage in diversified operations.

Overseas investors are generally taxed in their home countries. However, if they are taxed in Japan as well, up to 40 PERCENT of investment profits can be taken away by taxes. The risk of this double taxation is said to make some foreign investors reluctant to invest in Japan.

The government set a policy of exempting from taxation investors from countries with which it has yet to sign a tax treaty, such as Middle East countries, by revising the Corporate Tax Law enforcement order in April. Going a step further this time, the government has clarified tax-exemption rules to be applied to all foreign investors, regardless of whether their home country has a tax treaty with Japan, by regulating specific asset management rules.

The government will help overseas investors understand more detailed interpretations of the four conditions. For instance, if an overseas investor only gives brief instructions to an asset management company, such as to set up an investment fund framework, or tells them only in general terms about the level of risk the investor is willing to take on, then the domestic asset management company is considered independent of its overseas client. However, if the overseas client gives detailed instructions, such as which stocks should be traded or the timing of stock trades, then it will be subject to taxation, as it is deemed to be setting the asset management policy.

A relationship limited solely to capital will not necessarily determine whether the asset management company is considered independent of the client. For instance, a foreign investor that invests in Japan via a wholly owned local asset management unit will not be subject to the corporate tax as long as all the conditions are met.

Outstanding discretionary investments as of the end of March 2007 stand at approximately 120 trillion yen, 1.9 times the level three years ago. The government has determined that in order to revitalize the domestic market by further luring overseas investment, it will be necessary to clarify taxation rules that are in compliance with international standards.

(2) New economic growth strategy lacks specific systemic-reform measures

NIKKEI (Page 3) (Full)  
June 11, 2008

The government's Council on Economic and Fiscal Policy finalized an economic growth strategy in its meeting yesterday. The report stresses the need to create jobs mainly for young people, promote the internationalization of Haneda Airport, and develop advanced technologies. It also notes that Japan can achieve an annual 2 PERCENT economic growth in real terms over the next decade despite its shrinking population. This is the first report on economic strategic policies since the Fukuda administration was inaugurated, but it is lacking specifics when it comes to systemic reform measures.

In drafting the report, the council focused on the following three

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key policy goals: (1) creating a society in which everyone who wants to work can reach their full capability; (2) coping with globalization; and (3) developing advanced technologies. The report presents a new employment strategy to ensure a stable workforce despite the decreasing population. Specifically, the report proposes creating 2.2 million jobs for youths, women, and elderly people by FY2010 by taking such measures as improving the current vocational training system and making one million job-hopping part-timers regular members of the work force.

A major step will be taken toward aviation liberalization, according to the new strategy. A new runway will be completed at Haneda Airport in 2010. In conjunction with the completion, Haneda will host new regular flights to Seoul, Shanghai, Beijing, Taipei, and Hong Kong. On innovative technologies, the report suggests establishing in FY2008 special districts that will receive preferential deregulatory treatment in developing such advanced medical techniques as induced pluripotent stem (iPS) cells.

The measures proposed in the economic growth strategy will be included in the government's 2008 economic and fiscal policy guidelines due out in late June. Deeming the strategy as a prelude to the compilation of a budget for FY2009, each government agency was eager to come up with policy measures. But the report does not go deeply into reform measures that need no budgetary allocations.

Take the management of public pension funds, for instance. Panel members from the private sector stressed that the government should aim to increase profits by investing the reserves totaling about 150 trillion yen in diversified destinations. In reaction, the Ministry of Health, Labor and Welfare demanded the measure be dropped, out of fear of criticism about a short-term loss risk. Although Minister in Charge of Economic and Fiscal Policy Hiroko Ota insisted that the report should at least note that the measure is up for consideration, the expression used in the report is that "a broadly-based study should be conducted from the people's point of view."

In the wake of a foreign hedge fund's bid to increase its stake in J-power, attention is being paid to what measures would be taken to expand foreign direct investment in Japan. The report says that Japan will comprehensively look into restrictions on foreign investment in FY2008, but it includes no specific measures. Private-sector members called for increasing foreign workers with high-level skills to 300,000 by 2015, but the report does not mention this numerical target, either.

Key points in the economic growth strategy

Principles = from viewpoint of ordinary citizens, consumers  
Aim at achieving an over 2 PERCENT economic growth in real terms annually over the next decade.  
Set the period of three years starting in FY2008 as the period of implementation of priority measures.

Three strategic policies

All citizens' participation in economic activities

New employment strategy = Create 2.2 million jobs among youths, women, and the elderly.

Improve the productivity of the services industry and small to

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midsize companies.

IT-oriented state = Enable people to get a copy of their certificates of residence through terminals at convenience stores.

Global strategy

Conclude in 2010 economic partnership agreements (EPA) with countries with which the annual amount of Japan's trade accounts for 25 PERCENT of its total.

Have Haneda Airport host regular services to Seoul, Shanghai, Beijing, Taipei, and Hong Kong.

Revise in the fall 2008 the program to accelerate foreign direct investment.

Comprehensively study in FY2008 future options for restrictions on foreign investment

Establish a system to accept 300,000 foreign students.

Development of innovative technologies

Establish in FY2008 special districts that will receive bold preferential deregulatory treatment in developing advanced medical techniques.

Create in FY2009 a national project emergency budget.

Study a mechanism to drastically increase the use of natural energy.

(3) Interview with former Prime Minister Yoshiro Mori on divided Diet -- Prime Minister Fukuda must shuffle his cabinet and implement policies

TOKYO SHIMBUN (Page 2) (Abridged slightly)  
June 11, 2008

-- Former LDP Secretary General Taro Aso is highly popular as a possible candidate to replace Prime Minister Fukuda.

"Popular or not, Mr. Aso and Policy Research Council Chairman Sadakazu Tanigaki have run for the LDP presidency in the past, and I think that deserves some credit. Anyone is eligible to run for the LDP presidency. The question is whether or not one can meet the requirement of recommendations from 20 lawmakers."

-- You are serving as the supreme adviser to the Machimura faction, which includes former Defense Minister Yuriko Koike, another possible successor to Fukuda.

"That's what the media says. If the political community comes apart and everyone is thrown out into the sea, they would desperately reach out for anything to remain above the water. When such a time comes, people might turn to Ms. Koike. I'm talking about really chaotic times here."

-- In the previous LDP presidential race, some in your faction were eager to back Chief Cabinet Secretary Nobutaka Machimura. Former Secretary General Hidenao Nakagawa is also energetically taking action.

"This is not the time to say such thing because Mr. (Yasuo) Fukuda is working very hard."

-- What is your assessment of the two?

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"Mr. Machimura must wholeheartedly support Mr. Fukuda as his chief

cabinet secretary. He should go to any length for Mr. Fukuda."

"Mr. Nakagawa is in a free position. There must be a clear distinction between personal opinions and factions' views. This group has been well managed under my supervision. Why? The most important thing is not to create factions in factions. I have always rejected them."

-- A study group has been established centering on Mr. Nakagawa, and it has created a stir in the faction.

"If we are to say this or that about Machimura or Nakagawa now, it would be better to dissolve (the faction). It is a miracle that our faction has produced four prime ministers in a row. We owe much to other factions, and we are grateful for their cooperation. We must absolutely not produce another LDP president after Mr. Fukuda, though that would not occur anytime soon."

-- What is your view of the divided Diet?

"The Diet is still immature. In order to force the prime minister into dissolving the Lower House so that they can win the next general election, (the Democratic Party of Japan) opposes everything. Such is out of line with popular will. The LDP has control over the Lower House and the DPJ is the largest party in the Upper House. The divided Diet is a god-send for it is a chance to build consensus through talks."

-- Is a cabinet shuffle necessary in order for Prime Minister Fukuda to generate his policy imprint?

"The present cabinet is still the Abe cabinet. Sooner or later, I would like to see Mr. Fukuda establish his own cabinet and implement his own policies. He should shuffle his cabinet anytime now when the timing is right."

-- What about the timing for the next Lower House election?

"The election should be held at the best time. DPJ President Ichiro Ozawa has explicitly said that the election would take place in the fall. That is their wishful thinking. There is no need to carry out the election at such time."

-- What is your view of the possibility of political realignment?

"It would be quite natural for like-minded people to gather together and agree to endeavor to turn their visions into action. There is no doubt that the next Lower House election will be a turning point. There is a possibility that politics will demonstrate new developments depending on how the election turns out."

(4) Defense Ministry to retain present setup, reject Ishiba plan

MAINICHI (Page 5) (Full)  
June 11, 2008

A government panel on a reform of the Defense Ministry will work out a report this month and is expected to coordinate the ministry's organizational reform based on a draft plan to basically retain its current organizational setup. Defense Minister Shigeru Ishiba has advocated a drastic overhaul of his ministry. His initiative,

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however, encountered a strong negative reaction from within and outside the ministry. Prime Minister Yasuo Fukuda has asked the panel to make a soft landing. The panel is therefore trying to iron out the differences of opinions among its members, centering on the ideas of National Defense Academy President Makoto Iokibe, one of the panel's influential members. Ishiba has proposed mixing the Defense Ministry's bureaucrats and the Self-Defense Forces' uniformed staffs. The panel, out of consideration for Ishiba, is expected to incorporate his blueprint partially into its report.

The draft plan was informally presented by Iokibe, who is one of Fukuda's confidants, when the panel met on May 21. It describes that the Defense Ministry should "basically retain" its current setup of

internal bureaus and the Joint Staff Office (JSO) of the Ground, Maritime, and Air Self-Defense Forces as well as their respective staff offices. The Iokibe plan recommends the Defense Ministry to combine SDF staff officers into its defense policy bureau and other internal bureaus in order to revamp its organizational setup. The JSO, currently in charge of operational planning for the three SDF services, is recommended to have personnel from internal bureaus for posts below its deputy chiefs of staff.

The Ishiba plan presented to the panel features reorganizing and combining the Defense Ministry's internal bureaus and the GSDF, MSDF, and ASDF staff offices into three functional bodies for defense buildup, operational planning, and policy planning and public relations. It is aimed at enhancing cooperation between the ministry's bureaucracy and the SDF brass. According to the Ishiba plan, they are to assist the defense minister, who is a politician in the center of civilian control. However, the SDF's uniformed staff officers are strongly opposed to this Ishiba initiative. Eventually, the Defense Ministry came up with a total of six patterns for an image of its organization, failing to work it out.

The Iokibe plan does not go so far as to reorganize the Defense Ministry's internal bureaus and the SDF staff offices into three bodies. Instead of restructuring the Defense Ministry in such a radical way, it incorporates Ishiba's overtures in the form of mixing and combining some of the ministry's bureaucrats and the SDF's uniformed staff officers. "It imports Mr. Ishiba's idea," a high-ranking official of the government says. As well as the Defense Ministry's reform plan, Iokibe proposes abolishing the defense counselor system, which has now become a dead letter, and introducing political appointees as advisors to the defense minister. In addition, the Iokibe plan, like the Defense Ministry's reform plan, proposes beefing up the Defense Council's functions with senior officials from the Defense Ministry.

In April, a subcommittee of the ruling Liberal Democratic Party on a reform of the Defense Ministry also suggested the need for the prime minister's office to strengthen SDF personnel's authority. The panel will also consider this suggestion. However, Ishiba remains particular about his idea of integrating the Defense Ministry's bureaucracy and the SDF's brass due to their bureaucratic sectionalism. Ishiba, appearing on a TV program aired on June 5, remarked: "A compromise is needed, but there's also some things on which we must not compromise."

#### (5) Asia Security Conference

ASAHI (Page 10) (Abridged)  
June 10, 2008

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The Asia Security Conference, also known as the Shangri-La Dialogue is an annual gathering of defense or security ministers and pundits in the Asia-Pacific region. It was held in Singapore from May 30 through June 1. The seventh meeting had the participation of representatives from a total of 28 countries and areas including U.S. Defense Secretary Gates and Defense Minister Ishiba. In the wake of a recent huge cyclone that hit Myanmar (Burma) and an earthquake that devastated China's Sichuan Province, participants focused their discussions on international cooperation in disaster relief.

#### Japan's defense policy

In the conference, China voiced its sense of alarm about Japan's defense policy, specifying Japan's ongoing deployment of missile defense (MD) systems with the United States and Japan's strengthening of its alliance with the United States.

In his speech on May 31, Deputy Chief of the General Staff of the Chinese People's Liberation Army Ma cited an "expanded military alliance" as one of the "three threats" in the Asia-Pacific region and noted that the deployment of MD systems is "not purely for defense."

Tang Jiaxuan, a former member of China's State Council, was in charge of foreign affairs as a vice premier-level leader until this spring. In those days, Tang expressed his hope for the Japan-U.S. alliance to contribute to peace and stability in the Asia-Pacific region. As seen from his remark, there is a somewhat affirmative view of the Japan-U.S. alliance in China, as well.

As is evident from Ma's remark, PLA brass still have negative perceptions about Japan.

Another Chinese expert, Zhuang Jianzhong, vice director of the Center for National Strategic Studies at Shanghai Jiao Tong University (SJTU), tuned in to Ma in a session on June 1, asserting that a bilateral military alliance is a historical product of the Cold War. "We should attach importance to a multilateral alliance," he added. Singapore's Defense Minister Teo raised a question about this remark. "I wonder if Japan's defense seeking an alliance with countries other than the United States is good for stability in Northeast Asia," Teo said. He admonished the Chinese participants, saying, "If Japan is unstable, that is not good for China."

The conference started on May 30, when Japan announced that it would forgo dispatching Self-Defense Forces aircraft on a mission to airlift relief supplies for those affected in the Sichuan earthquake. Ma revealed that it was based on a decision China made in consideration of historical issues lying between Japan and China and the Chinese public's sentiment.

In his speech, Singapore's Prime Minister Lee noted: "Japan and China are at odds over historical perceptions and other issues. However, both countries are trying to build constructive relations. This is a sign of stability in East Asia." U.S. Defense Secretary Gates also stated that better relations between Japan and China will benefit the United States.

Alliance, Asia diplomacy can go together: Defense Minister Ishiba

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We always need to verify the balance of power in East Asia. China is gaining in importance, and this is a significant change. I don't stand for playing up China as a threat. However, I strongly hope China will make its military power and intention more transparent.

The bilateral alliance between Japan and the United States is one of the strongest alliances in the world. It should be used as a public asset for the region. The United States is obligated to defend Japan, but Japan is constitutionally not allowed to defend the United States. This is an asymmetrical bilateral relationship. Some people say Japan should use its right of collective self-defense. However, we have no plans for constitutional change or reinterpretation. It's possible to beef up the Japan-U.S. alliance's credibility, and it is also possible to beef up Japan's Asia policy at the same time. Japan is not thinking of going nuclear.

Japan's Self-Defense Forces have been working together with other international community members for peace while being proud of Japan as a peace nation. The SDF is currently on a refueling mission in the Indian Ocean and is also on an airlift mission in Iraq. These SDF activities are under time-limited laws (respectively set to run out in January and July next year. We should create a general law that shows a 'menu' to meet the international community's needs for cooperation.

Terrorism, in many cases, is ascribable to a relative poverty, as compared with other countries. We need to make steady efforts to eliminate it and change the political system. On the other hand, if retributive deterrence does not work, then we will have to improve the overall capability of rejective deterrence. Our missile defense system is also one of them. I think it is about time for Asia with its diversity to use its wisdom for living in harmony with nature.

(6) Editorial: Fukuda vision needs to be modified

TOKYO SHIMBUN (Page 5) (Full)  
June 11, 2008

Prime Minister Fukuda unveiled a new initiative called the "Fukuda vision," a set of proposals on measures to fight global warming, in preparation for the Group of Eight Hokkaido Toyako Summit (G-8 Summit). The proposals include emissions trading, but forgo setting a mid-term emission reduction target. The Fukuda vision is still insufficient to make a significant impact on the Japanese public and the world audience.

While the end goal of the Fukuda vision is clear, the immediate goal is blurry. As a long-term reduction goal, Fukuda proposed to attain a 60-80 PERCENT domestic greenhouse gas emissions reduction target by 2050 from current levels, following the target announced by the European Union (EU) and indicating a specific target.

But when it came to setting a medium-term reduction target by 2020, an essential part of the vision, the Prime Minister deferred setting such it. The vision only indicated the possibility that greenhouse gas emissions would be reduced 14 PERCENT from the 2005 level.

This figure stems from a sector-by-sector approach proposed by Japan to set each country's target by adding up possible amounts of industry-by-industry emission reductions. However, the problem is that even if forest absorption of carbon dioxide is approved as is, the reduction amount will be merely 8 PERCENT from the 1990 levels,

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far from the 25-40 PERCENT called for by the Intergovernmental Panel on Climate Change (IPCC). Other countries of the world will not be able to accept Japan's "trickery" of shifting the base year in its favor.

The Fukuda vision states that the impact of global warming has already become obvious. Given this, we think it is urgently necessary to reconsider a medium-term reduction target.

Fukuda also vowed to introduce domestic emissions trading. This is clearly progress. The emissions trading system within the EU has led to a six-trillion-yen market. Emissions trading have become indispensable to international efforts to reduce greenhouse gas emissions.

However, even though a domestic integrated market will be established, if new caps are not placed on participating companies, the emissions market will not function appropriately. If an 80 PERCENT emissions reduction were possible by voluntary efforts, the Kyoto Protocol would be unnecessary from the beginning. Placing caps on emissions inspire each country to move to reduce their greenhouse gas emissions and to develop innovative technologies, which could lead to business opportunities.

The Fukuda vision concludes by saying that the leading player in bringing about a low-carbon society is the public. If so, political will and mechanisms to show clear targets and urge the public to car-share and make efforts to save electricity are more important than simply paying attention to international bargaining and giving consideration to industries.

We hope to see the Fukuda vision modified in a way to make the public, as a leading player, aware of the seriousness of the situation and playing a role. If the prime minister demonstrates his leadership at home, he then can make an impact on the international community, as well.

(7) (Corrected copy) Prime Minister's schedule, June 10

NIKKEI (Page 2) (Full)  
June 11, 2008

08:52

Attended a cabinet meeting.

09:19

Met MAFF Minister Wakabayashi and Chief Cabinet Secretary Machimura, followed by Justice Minister Hatoyama, MHLW Minister Masuzoe, and Machimura. Masuzoe and Machimura stayed on. Afterward met National



Public Safety Commission Chairman Izumi.

09:51

Met Former U.S. Ambassador to Japan Baker and his wife at the Kantei.

11:00

Met Science Council of Japan Chairman Kanazawa and Vice Chairman Doi in the presence of Science and Technology Minister Kishida, Cabinet special adviser Kurokawa, and others. Afterward met Economic and Fiscal Policy Minister Ota in the presence of Assistant Chief Cabinet Secretary Saka. Ota stayed on.

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12:18

Had lunch with LDP third-term members in the presence of Deputy Chief Cabinet Secretary Ono, joined by Machimura.

14:10

Met Cabinet Intelligence Director General Mitani, followed by Lower House National Basic Policy Committee Chairman Eto and principal director Hagiyaama, followed by Vice Foreign Minister Yabunaka Asian and Oceanian Affairs Bureau Director General Saiki. Yabunaka stayed on.

15:30

Met New Komeito head Ota, LDP Secretary General Ibuki, New Komeito Secretary General Kitagawa in the presence of Machimura.

16:05

Met assistant Ito. Later attended a CEFP meeting.

18:13

Met Prime Minister Vanhanen of Finland, followed by a joint press conference.

19:03

Hosted a dinner party.

20:24

Returned to his official residence.

SCHIEFFER